ACCOUNTANCY

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PROFESSIONAL NOTES

The Forty-six Hour Week

In the July issue we drew attention to the statement of the Minister of Labour and National Service that the forty-six hour week should be regarded as the normal standard for offices. We have been asked to emphasise the importance of compliance with this recommendation of the Minister, and to request that firms of practising accountants should take definite steps to make staff arrangements accordingly. This is necessary by reason of the pressure of work in the offices of practising accountants, and to meet the situation caused by the calling up of women for the National Services. The number of hours worked is one of the factors considered by the Ministry of Labour in dealing with applications for deferment.

Sir Thomas Keens, D.L.

The services rendered to all branches of the hat trade in Luton by Sir Thomas Keens, D.L., a Past President of the Society of Incorporated Accountants, were recognised on July 16, when Sir Thomas received a presentation of his portrait in oils, painted by Mr. Frank O. Salisbury. The war has brought many delicate and difficult problems, especially in relation to the concentration of production, and the necessary adjustments and reorganisation have been greatly facilitated by the counsel and tactful mediation of Sir Thomas. The presentation was made before a representative audience by Mr. C. E. Morris, President, on behalf of the South of England Hat Manufacturers' Association. In the course of forty years the organisation of the hat trade, thanks largely to the advice of Sir Thomas Keens, had been placed on a sound footing subsequent to a period of considerable difficulty.

Farmers' Accounts

Through the courtesy of the Secretary of the National Farmers' Union, the Society of Incorporated Accountants has received information of a scheme in relation to farmers' accounts now being established by the N.F.U., to be administered by its County Branches. The purpose of the scheme is (*a*) to enable farmers to be advised on the maintenance of adequate accounts and on returns to the Inland Revenue in relation to income tax, and (*b*) to furnish the N.F.U. with information as to farm costings and farm incomes and outgoings. For these purposes the N.F.U. has suggested to its County Branches that they should consider appointing advisory accountants. The Society has arranged to supply to the N.F.U. headquarters, for the information of County Branches, the names and addresses of practising Incorporated Accountants who have special experience of farmers' accounts, and the President of the Society has

communicated with the District Societies of Incorporated Accountants on the matter. The information when received by the N.F.U. will be transmitted to the County Branches of the Union for their guidance, and would, of course, be available to individual members of the Union, who number over 140,000.

Difficulties in Fixed Price Contracts

Contract policy should ensure that contractors have an incentive to produce at lowest costs. In its first report, recently issued, the Committee of Public Accounts of the House of Commons definitely favours the fixed price contract for this purpose, given sufficient data to assess a reasonable fixed price. This is the Committee's view after investigating features of certain non-competitive contracts placed at fixed prices by the Supply Departments. The Comptroller and Auditor-General's report on the relevant accounts for 1940 raised the questions whether the Departments were influenced by lack of information due to contractors' unwillingness to allow full investigation of their costs and profits, or by fears that, in the absence of settlements, production or deliveries might be affected. In no case was there found to be any restriction of production or failure to deliver the articles required, but the Departments and certain contractors appear to be open to criticism on certain points. A selection of fixed price contracts must be costed to ensure that prices for subsequent contracts are fixed in relation to current costs. It is admitted that contractors are entitled to refuse to accept a maximum price contract, in which the final price depends on the findings of a cost investigator. But the Departments have compulsory powers to order firms to make goods and to keep records to enable costs to be investigated. In some cases the Departments are criticised for not making more use of their compulsory powers, though it is recognised that it is desirable to preserve the goodwill of contractors. It is astonishing to find that in important concerns entrusted with vital contracts, costing organisation was inadequate or non-existent. In one case, a director—an engineer and scientist—was the only person who could give the explanations required for an accountancy investigation and he was fully occupied on production. In the absence of more detailed information, it would be unfair to comment, but the circumstances suggest that some professional assistance and consequent division of labour would have been advantageous.

The reluctance of some firms to agree to costs investigations is severely criticised by the Committee. But it may be that this reluctance was due quite as much to psychological as to financial considerations. There may be room for discussion as to whether the Ministries could be furnished by the contractors with independently certified costings, prepared in accordance with the instructions of the Ministries, or whether the Ministries' investigators should take the necessary steps: but there can be none that costings are essential whatever the type of contract. Contractors who objected to cost investigations have argued that it would divert time and attention from productive work, and that even if their prices and profits should prove excessive, E.P.T. would take care of the excess. The Committee's attitude is that sufficient costing information should be made available to ensure that prices are reasonable, though in some cases no objection is raised to the use of other methods, such as comparison with the prices charged by other contractors. In turn, the fixed price contract, the maximum price contract and most of all the cost-plus contract have received a large measure of criticism. There is no ideal solution to placing contracts for a vast variety of equipment under conditions of intensive and non-competitive war production. There must inevitably be continuous discussion and criticism leading to improvement in methods in the light of hard-won experience. Lest the report should create an exaggerated impression, it should be said the cases discussed are few and are substantially past history and it is thought that in only about one per cent. of cases have cost investigations been refused. There remains the vast majority of contracts where with some ups and downs mutually satisfactory arrangements have been made and of which nothing is heard.

Excess Profits Tax and Contract Policy

The incidence of taxation should not be considered by Departments in fixing contract prices. This is the considered view of the Treasury and is accepted by the Committee of Public Accounts. It is admitted that E.P.T. is intended to secure a limitation of profits—as well as the raising of revenue—but only as a reserve measure. Contractors, it is stated, have incentives to obtain as high a profit as possible in the 20 per cent. post-war refund and the right to repayments in the event of subsequent deficiencies. The State could not be expected in effect to guarantee contractors their standard profits, which vary within wide limits and have no necessary relation to present performance and relative efficiency. Further, it is very desirable to keep down costs as well as profits, and no form of taxation can be expected to do this. A fixed price contract gives the contractor an incentive to efficiency: a costed contract can prevent the inclusion of irrelevant overheads and extravagant directors' fees and wages. Cost investigations may also reveal uneconomic methods of production and are directed not less to economy in material and manpower than to financial costs. The Treasury therefore maintains the policy of securing fair and reasonable terms "as any other prudent and reasonable purchaser would act." The ideal of prudence and reasonableness is unassailable. But it may be pointed out that E.P.T. does provide a safeguard to the State where insistence on every refinement of costing may not only occupy time which would be better spent on productive work but also impair the goodwill of contractors, who are normally anxious to do all they can to further the war effort.

The Institute of Municipal Treasurers

At the fifty-seventh annual general meeting of the Institute of Municipal Treasurers and Accountants on June 26, the President, Mr. G. E. Martin, F.S.A.A., said that it was a matter for great satisfaction that the Court of Appeal had decided in favour of the

local authorities in the South Shields income-tax case. The judgment was unanimous, and he felt that the chances of success in the highest tribunal were very good. The effect of the judgment is to establish that the pooling clauses in the relevant local Act have been successful in doing what they were intended to accomplish. All receipts of the local authority, from whatever source, are paid into and form part of the general rate fund, while all payments, no matter for what purpose, are paid out of that fund. In accordance with this principle it was held that South Shields were correct in contending that the profits of their electricity and tramways undertakings must be deemed to have been devoted to the payment of rate fund interest, the tax on which the Corporation were, as a result, entitled to keep. The decision reverses the judgment of the King's Bench Division, which formed the subject of an article in the November, 1941, issue of ACCOUNTANCY.

Mr. A. B. Griffiths, F.S.A.A., City Treasurer of Sheffield, has been elected President of the Institute for the year 1942-43.

Accountants and Tax Appeals

The question put by Sir Smedley Crooke to the Financial Secretary to the Treasury on July 8 would seem to show that the practice of notifying the appellant's accountants of the hearing of the appeal by the General Commissioners is not so universal as is suggested by experience in the metropolis and the larger towns. Captain Crookshank asserted definitely that notification to the accountants was "common practice" and it would certainly be interesting to know the extent to which this courteous habit is not observed. Turning to the law on the subject, Section 137 of the Income Tax Act, 1918, was amended by Section 25 of the Finance Act, 1923, and as affecting the accountancy profession now reads: "Upon any appeal the General Commissioners . . . shall hear any accountant" and the last word is defined as "a person who has been admitted a member of an incorporated society of accountants." There is no cause of complaint here, but the weak link is that the opening words of Section 137 merely provide "The General Commissioners shall cause notice of the day for hearing appeals to be given to every appellant" so the accountant, in law, must rely on his client for advice of the date and time. This should work satisfactorily in practice even if the law were not commonly supplemented by most clerks to commissioners in sending separate advice to the accountant concerned. Hard cases do not make good law, but an official statement to the effect that it is desired that the "common practice" should be universally applied should suffice to remove all cause for complaint.

Does Money Matter?

In war-time, it is more than ever necessary to think in real terms, and in some quarters the reaction against financial conceptions has been carried to the point of a denial that money matters at all. It is true that in war-time the pull of competitive monetary demands no longer determines what shall be produced, and that price controls and rationing make it no longer permissible to use money as a measuring-rod of different types of goods and services. Nevertheless, money does still play a vital rôle in our economic life, as Lord Kindersley emphasised recently when he said that inflation could undermine the whole war effort. This question, Does Money Matter? is adopted by Mr. O. R. Hobson as the title of a small book, in which are republished in more permanent form a selection of the *News Chronicle* City articles. Mr. Hobson's conclusion is that: "If a community like ours can see its way in physical terms—finds that it has the labour, plant and material available—to carry out communal projects of its choosing, say family allowances or the clearing of a slum area or the building of a Charing Cross bridge, money need be no bar to their achievement. On the other hand, *ex nihilo nil fit*. Such projects involve a real cost to the community (which may be small if there is extensive unemployment of labour and plant) and their fulfilment inevitably involves some redistribution both of real and money national income amongst the members of the community. Those facts must be faced and not shirked, as they often are, by over-enthusiastic exponents of the "'money is no obstacle' doctrine." It might, perhaps, be objected that if unemployment is very severe, investment doubly benefits the community by stimulating the output of consumption goods that would not otherwise be produced. This is, however, a very minor criticism of a book which in small compass contains an incredible amount of concentrated common sense.

Methods of Increasing Output

Numerous methods of increasing war production from existing plant are discussed in a memorandum addressed to Mr. Oliver Lyttelton by the Institution of Production Engineers. "With the entry into the war of the U.S.A., and the Russian need for machine tools," it is pointed out, "it is clear that our new focus of effort in home production must be to increase output without any further increase in plant facilities." Four main lines of approach to the problem are suggested: increased machine activity, simplification of design, rationalisation, and improved manufacturing methods. To increase machine activity, it is suggested, for example, that day workers might be transferred to night work and replaced by part-time workers; women of conscription age should be classified and assigned specifically either to shift-work or to day-shift, and the growth of inefficient small firms should be prevented. "It is unfortunate," the Institution comments, "that Government costing departments appear to concentrate upon the limitation of profit rather than of cost." The importance of design is illustrated by several examples, including the case of a Bren gun part, whose cost was reduced after re-design as a simplified pressing from £238 15s. to £11 10s. Greater standardisation, and the abandonment of the "safety first" policy in spreading contracts, are advocated under the head of rationalisation. Finally, it is suggested that economies through improved manufacturing methods could be secured by making available to small firms that lack adequate production engineering experience, a few hours of the time of a production engineer specialising in their particular class of manufacture.

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THE RETAILER

The Committee appointed more than a year ago to examine the impact of war on retail trade in goods other than food has published its recommendations. Whether the proposals will be adopted, however, is still far from certain, and the President of the Board of Trade in the recent debate in the House of Commons stated that the Government had not yet taken a decision on policy. It would be difficult to find a problem bristling with more controversial issues—political, social and economic—than the concentration of retailing. That the scheme could not hope to command universal acceptance was already apparent from the dissenting views appended to the Report by members of the Committee itself, and opposition by some branches of the retail trade and in Parliament is already crystallising, particularly in regard to small traders.

To arrive at a fair judgment on the proposals, it is necessary to bear in mind the fourfold objects of Government policy, as outlined in Parliament by the President of the Board of Trade: to maintain sufficient retail outlets for the reasonable needs of the public; to help to meet the demands for ever more mobile workers for munition factories and the Services; to keep down the cost of distribution per unit; and to avoid needless hardship, remembering that the small trader, when a certain point is reached, can no longer restrict the scale of his activities but unfortunately has to cease altogether.

The scheme is not exclusively intended to protect retailers against the financial effect of falling turnover. This point is completely overlooked in the suggestion that an alternative solution would be to increase retail profit margins, a proposal that would not only defeat the main purposes of concentration but would also run counter to the Government's price stabilisation policy. The question of compensation assumes such a central importance in the whole problem because it is the absence of compensation by the Government which has made so many retailers reluctant to abandon their business even under the most adverse conditions. It is clear that shopkeepers, dependent for their livelihood on an established connection, could not be expected readily to sacrifice their goodwill even if current trading resulted in losses. This is undoubtedly the whole crux of the retail problem.

In brief, the Committee proposes two types of benefit, financed by a compulsory levy on the non-food retail trade as a whole. "Standard" benefit at the rate of 5 per cent. per annum on the amount of turnover for the preceding twelve months would be paid to enable withdrawing retailers to meet their continuing contractual obligations, such as rent. It is estimated that in the majority of cases payment on this scale would be sufficient to meet obligations. If it should not suffice, the trader might seek an abatement, though for this purpose an extension of the Liabilities (Adjustment) machinery would be needed. If, on the other hand, the standard benefit exceeded obligations, the balance would be retainable by the retailer; but the latter would be compelled to terminate his obligations at the earliest possible moment—for example, by taking advantage of the first option to break a lease. Alternatively, retailers without continuing obligations could claim a "special" benefit, also at the rate of 5 per cent. per annum on turnover for the preceding twelve months; but this would be payable only for six months on the first £5,000 of turnover. Such benefit would therefore be limited to a maximum of £125 and is clearly intended as a small incentive to withdrawal on the part of the very small shopkeeper.

The levy to finance these benefits would be compulsory on all non-food shops having a turnover of more than £1,000. A suitable initial rate, in the Committee's view, would be 1 per cent. on turnover. If retail turnover should fall by one-fifth, it is pointed out, this would compensate a withdrawal of shops handling 16 per cent. of the total turnover, a reduction which "the situation is likely to require." The levy would be adjustable. In the early days, it is thought, payments out of the fund might almost reach 5 per cent. of turnover, while it is considered desirable to build up a balance against possibly even more difficult times. On the other hand, savings would be effected as contractual obligations ceased and special benefit payments were terminated. Finally, withdrawal under the scheme would entitle the trader to exemption from rates, even where fixtures are not removed; and those withdrawing would be given a certificate conferring prior—though not absolute—rights of re-entry into the trade.

The effect, then, would be that retailers wishing to close down could do so without actual insolvency. Unlike those excluded by concentration in other industries, however, they would have no protection whatever for their goodwill, nor any share in the wartime profits of the industry. Perhaps this is inevitable. The levy would constitute a charge on those remaining. But this would be compensated by some increase in their turnover, and it would also operate as an insurance against "a swing of the pendulum" should they in turn be forced to close down. In principle, therefore, the scheme would go some way towards reconciling divergent interests and towards reducing the hardships inevitable in the absence of compensation. Nevertheless, severe hardships would remain. And it may be doubted whether the benefits offered would be sufficient to induce an exodus within a measurable period on anything like the scale required.

Accounting Ratios

By F. S. BRAY, Chartered and Incorporated Accountant

A charge consistently levelled against accountants, not infrequently by economists, is that they are too intimately bound up with conceptions of monetary cost. Monetary cost is all very well in a settled economy relatively stable—so the criticism runs—but what inferences are to be drawn from accounts prepared according to this conception in a relatively unsettled economy? Pure theory and applied theory are seldom at ease for long in each other's company. Nevertheless an accounting practice has been developing in later years, particularly in America, which partly seeks to meet this criticism. It is a practice which tends to place greater reliance on deductions to be made from the ratios thrown up by contrasting seemingly related groups of figures as set in accurately designed accounting documents. A comparison of ratios is to be preferred to a comparison of actual figures in those cases in which the influence of the time element is of major importance. It is probable that there is still a great deal of research remaining to be done to discover what are the most significant relationships between detached groups of figures, and when this work has been done, a vast field remains open to discover what are the normal standard ratios of different industries and of different undertakings within those industries.

In this country there is still a certain amount of novelty in the use of accounting ratios. We sometimes see a reference to income ratios and very occasionally balance sheet ratios. Yet it is a subject which is slowly creeping into prominence, e.g., the profit element in Government contracts in some instances is now being considered as bearing some relation to the ratio of fixed capital to cost of turnover, assuming a reasonable standard percentage for interest on capital. It is, therefore, not inopportune to suggest that professional accountants should examine a little more closely this idea of accounting ratios, more particularly in relation to an analysis of balance sheets and revenue statements.

Two points need to be made clear from the outset. In the first place, accounting ratios are intimately bound up with the principles governing the accurate design of accounting documents. Any development in the use of ratios must be preceded by a development in design, a development which may have to be taken almost to the point of relative standardisation within industries. Before considering group ratios, accounting draftsmen must be clear on what items are to be placed within group classifications and how far those classifications are in themselves mutually exclusive. It is clear that the design of accounts must be consistent within an industry if computations of ratios are to mean the same thing. We have gone a long way in developing design but there is still very much more to be done.

In the second place, accounting ratios need to be judged against standard indices to be set up both for individual undertakings and for the classified industries within which they operate. It will take much research to build up standard indices, and even when it has been done, it will have to be remembered that ratios are sensitive to individual circumstances—they may be equally capable of favourable and unfavourable interpretation, so that at best they should be treated cautiously and only regarded as reasonable guides pointing enquiry into underlying causes to ascertain their precise significance.

At this point it may be well to consider some of the accounting ratios so far developed both in America (*) and in this country. The method of calculating the various ratios is illustrated by reference to a hypothetical balance sheet on the next page.

The Current Ratio

The current ratio is obtained by comparing the total current assets with the total current liabilities. It indicates how many times the current liabilities are covered by the current assets. There is a danger in treating this ratio too rigidly, but where a business has reached a point at which it is in equilibrium, as understood by economists, it is a ratio which should move within settled limits over an accounting period. Any movement outside these limits is one which should be closely investigated.

The significance of the current ratio lies in the fact that it is an index of solvency, and an index of strength of working capital. A good deal of caution needs to be exercised when this figure is calculated from published accounts. Even in these days there is still an element of "window dressing" in some published accounting documents which cannot be disregarded, and much will depend upon the stage in the natural business year at which the balance sheet is drawn. Moreover, the calculation of this ratio on the basis of total current assets may suggest unwarrantable inferences where heavy inventories are being carried. There is always the possibility that such inventories may not be turned into cash at a sufficiently rapid pace to cover both defined and oncoming liabilities when currently due. There were many instances of this at the start of the war. In such cases it is preferable to make a deeper analysis distinguishing between liquid and floating assets. The real question which always presents itself when a current position is examined is how fast will liquid resources be available to meet current liabilities, i.e., is the normal inflow and outflow of liquid resources in equilibrium at all points in the accounting period? This question is co-related to others which pertain to working capital, e.g., are the current assets moving into a state of liquidity with sufficient rapidity to meet the cost of materials, wages and expenses entering into production? Are funds appearing to finance new developments? Are there sufficient

(*) The clearest account of the ascertainment and commercial use of ratios which I have so far read is to be found in the chapters on "The Analysis of the Balance Sheet" and "The Analysis of the Income Statement" in *Accounting Principles and Practice*, by Professors Hatfield, Sanders and Burton (Ginn & Co., 1940), a work which might be better known in this country.

resources available to take advantage of economic opportunities?

The Ratio of Current to Fixed Assets

The usefulness of the ratio of current to fixed assets depends upon the assumption that a business which is financially strong will reveal a high proportion of current assets in relation to fixed assets. Once again, this ratio must be approached with caution. The time element is an important factor, i.e., at what point in the accounting period is the ratio calculated? It is quite clear that different units (classified according to size and variation of products) and different industries will reveal different "norms" or standard ratios. The ratio for a particular undertaking must be compared so far as it is available with the standard of a like undertaking in the same industry. A comparison of like with like is always the test. Again, this ratio, in common with the other ratios which we are considering, should be computed from several successive balance sheets as a general guide to whether or not a business is improving or receding.

The Ratio of Shareholders' to Creditors' Equity

The ratio of shareholders' to creditors' equity is obtained by comparing the total liabilities of a business with its total net worth. It is an indication at a defined date of the financial interests of the proprietors in a business as contrasted with the financial interests of the creditors. The higher the net worth in relation to liabilities the stronger is the business; the executive will be less likely to be impeded by the influence of creditors, which should make for greater freedom to manage and develop.

The Ratio of Net Worth to Fixed Assets

The significance of the ratio of net worth to fixed assets depends upon the assumption that the higher the net worth in relation to fixed assets the stronger will be the business. It is intimately bound up with the view that the shareholders should provide the fixed assets of an undertaking (a principle which is inherent in the double account system) and that they should also contribute some part of the funds available as working capital. As such, it is a pointer to soundness of capital structure.

The Income Ratios

The ratios of net sales to the cost of goods sold, the gross margin, the selling expenses, the administration expenses and the net operating profit are well known to English accountants, but in considering these ratios it has to be remembered that the income statement is an historical document covering a period of time, and the introduction of the time element in relation to changes in the value of money makes these ratios less satisfactory than balance sheet ratios. They are, however, useful guides for management, and, as in the case of balance sheet ratios, they should be compared with standard ratios set up as indices of normality. It is often useful to contrast costs and expenses with a set of corresponding items computed by applying the ratios of a previous period to the net sales of the current period.

Simplified Illustration:

A.B. CO., LTD.
BALANCE SHEET AT 30TH JUNE, 1942

	£	£
I. CAPITAL AND SURPLUS:		
1. Authorised and Issued Capital 100,000 Shares of £1 each	100,000	
2. General Reserve	100,000	
3. Profit and Loss Account balance	25,000	
		225,000
II. MORTGAGE DEBENTURES (Interest at 5% per annum)		100,000
III. CURRENT LIABILITIES:		
1. Accounts Payable	17,500	
2. Accrued Expenses	1,500	
3. Taxation	15,000	
		34,000
		£359,000
I. FIXED ASSETS: At Cost less depreciation:		
1. Land and Buildings	100,000	
2. Machinery and Plant	95,000	
3. Transport Equipment	30,000	
4. Office Furniture and Fixtures	15,000	
		240,000
II. CURRENT ASSETS:		
1. Inventories at Cost or lower Market Value	53,000	
2. Accounts receivable	45,000	
3. Marketable Securities at valuation 30.6.42	15,000	
4. Bank Balances	5,000	
5. Cash Balances	250	
		118,250
III. DEFERRED CHARGES—Unexpired Payments		750
		£359,000

A.B. CO., LTD.
BALANCE SHEET RATIOS 30TH JUNE, 1942

		£	
(i)	Current Assets	118,250	
	Current Liabilities	34,000	
	Current Ratio:		3.48
(ii)	Current Assets	118,250	
	Fixed Assets	240,000	
	Ratio of Current to Fixed Assets		0.49
(iii)	Net Worth	225,000	
	Total Liabilities	134,000	
	Ratio of Shareholders' to Creditors' Equity		1.68
(iv)	Net Worth	225,000	
	Fixed Assets	240,000	
	Ratio of Net Worth to Fixed Assets		0.94

It is equally useful to discover the effectiveness with which a business has utilised its resources by comparing the net sales with the average inventory for the accounting period. This rests upon the assumption that the more frequently a business can profitably turn over the amount it has invested in circulating assets, the more profit it can obtain from that investment. It is an attempt to measure success in the utilisation of working capital; but here, again, some attempt should be made to estimate standard stock turns. It is sometimes thought more useful to compare the net cost of materials consumed with the average inventory of raw materials—the "material turn" as it is called. In one sense this is but a refinement of the stock turn.

It is of value to the management to know the effectiveness of credit and collection policies, and this can be done by comparing the net sales of a period with the average debtors, i.e., the "turnover of debtors or receivables"; but here, again, this ratio must be related to normal terms of sale and their seasonal character if it is to have any worth.

The Ratio of Net Income to Capital

The ratio of net income to capital is usually obtained by comparing the net income at the close of a period with the net worth at the beginning of the period. It is a ratio which in America is frequently calculated by financial journalists from published accounts as an index of the ability of the management to earn a reasonable income on invested capital.

None of the ratios which we have discussed should be treated as absolute. They are always to be approached with caution and regarded as symptoms pointing to a need for deeper investigation into the precise reasons for deviation from normal. The great problem which confronts us is the ascertainment of the normal.

Modern Developments in the Form and Presentation of Accounts

By ARTHUR J. COOKE, Incorporated Accountant

The movement towards clearer and more informative accounts, both for publication and for private use, has made considerable progress in recent years, and though influenced by wartime security considerations, is continually gaining new adherents in professional and financial circles. A review of this progress is both interesting and instructive, and affords valuable indications of probable future developments.

The Balance Sheet

Progress towards clarity and greater information has been particularly striking in the modern balance sheet. The old form, with its unco-ordinated sets of figures, has disappeared so far as the progressive company is concerned, and it is a cause of surprise and regret that examples of the old form are still to be met. Much of the improvement has been brought about by the pressure of enlightened professional opinion, and it can surely only be a question of time before the new methods are universally adopted.

What, then, are the features which mark the modern balance sheet, and raise it so far above the level of its predecessors? Briefly, they can be summarised as follows:

(*a*) The grouping of the various assets under the headings of current, fixed, wasting, and intangible assets, with the appropriate comparative figures.

(*b*) Segregation of capital and liabilities into current liabilities and provisions, share capital, debentures and other similar indebtedness, and reserves and surplus, again with comparative figures.

(*c*) Adequate analysis of assets and liabilities to give maximum information on such essential matters as freehold and leasehold properties, plant, goodwill, trade marks, etc., depreciation provisions, taxation and contingency reserves, and similar details vital to a correct appreciation of the company's position.

(*d*) For interests in subsidiary companies, a consolidated balance sheet for the whole group, designed to show the value of the net assets underlying the parent company's investment. This information is so essential that statutory enforcement is felt to be one of the reforms most urgently needed in present-day company legislation.

(*e*) The inclusion in the accounts of proposed dividends, reserves, and other appropriations, instead of the old method of dealing with them in the directors' report. The final balance carried forward in the appropriation account is then readily seen from the balance sheet, and involves no reference to figures outside the accounts.

(*f*) A clear indication of the extent to which provision has been made for the various taxation liabilities on the profits up to the date of the balance sheet. An interesting development is the inclusion of current (or "legal") taxation provisions under current liabilities and those for taxes assessable at some future date under the heading of reserves, a distinction which has much to commend it.

(*g*) A clear linking up of taxation and other reserves and provisions with those appearing in the previous balance sheet.

No review of balance sheet development would be complete without reference to the treatment of dividends and tax deductions. The question of showing these net or gross has involved considerable discussion, and wide variations in treatment are still evident. A personal view is that the "net" method (with, if desired, a note of the gross amount and the tax deducted) is unquestionably to be preferred, disclosing as it does both the actual net amounts receivable by shareholders and the total burden of taxation on the company in a manner impossible under the alternative method.

Some companies have developed the single column form of balance sheet presentation, usually designed

to show the "net worth" of the undertaking, and doubtless this method will be further extended in the future. While possessing certain attractive features, it does not seem to enjoy any substantial advantages over a well-designed balance sheet drawn up on the normal side by side lines, though, as described later, it is an ideal form for the presentation of the profit and loss account.

The Profit and Loss Account

Published profit and loss accounts, at least, seem slow in reflecting modern tendencies, the information given still being restricted to the legal minimum in far too many cases, while uninformative omnibus headings are common. One must hope that the lead given by those concerns that have adopted modern ideas will be speedily followed by the general body of companies, stimulated, if necessary, by amending legislation to compel the disclosure of essential information not at present covered by the Companies Acts.

The modern form of profit and loss account calls, as a minimum, for a clear distinction between trading profits, income from other sources, suitably detailed, and any exceptional items, together with full details of provisions for depreciation, taxation, directors' remuneration of all kinds, exceptional provisions or amounts written off, and any other unusual or non-recurring charges. The final profit for the year is taken into the appropriation account, which shows the actual and proposed appropriations of available profits and the final balance proposed to be carried forward. Supplemented by a summary of comparative figures for at least the five preceding years and, where interests in subsidiary companies are involved, a consolidated statement of the group earnings, the modern version gives the shareholder information on his company's affairs which he has every right to expect, and, indeed, to demand, despite the present unsatisfactory legal position.

It is a matter for regret that the profession has not generally adopted the columnar form of profit and loss account in place of the traditional debit and credit form, particularly for the detailed accounts prepared for clients' internal purposes. From an extensive experience of both forms, it can be said without hesitation that the columnar form has many advantages, showing, as it does, the figures in their logical order through to the final balance of profit. Lack of space unfortunately precludes the presentation of examples, and each case will vary in details, but normally the sequence of items is net sales; cost of net sales; gross profit; administration, selling, and other expenses (suitably analysed); depreciation and other provisions; financial and other charges; profit before taxation; taxation provisions; net profit carried to appropriation account; detailed appropriations of available profit; and final balance carried forward.

Some General Developments

The great majority of published accounts now give comparative figures for the previous financial period, and the advantages are so obvious that such information must be regarded as an essential minimum in any up-to-date set of accounts. It might well be supplemented by a summary of the salient features of the accounts for the past five to ten years, an admirable lead in this direction having already been given by several leading companies, whose accounts set a high standard for clarity and useful information. The addition of percentages to emphasise important features of the accounts, such as the relationship of fixed to current assets, share capital to reserves and surplus, and appropriations to available profits, is growing, and is worthy of universal adoption.

One small point deserving of greater attention is the omission of shillings and pence from final accounts. Their inclusion serves little useful purpose, while deletion brings about a surprising increase in clarity. One prominent company has gone so far as to adopt the decimal system for its final figures. While this may be too revolutionary for general purposes, it affords an excellent illustration of progressive thought in matters of detail.

Finally, the value of almost every set of accounts, particularly when designed for the private use of clients, can be greatly enhanced by the provision of detailed explanatory schedules for many of the items which appear in the final accounts in total form. The scope for such amplification in published accounts is probably not so great, but even here cases often arise where it is of the greatest value, e.g., a detailed statement of the holdings of investment trusts or property-owning companies. The shareholder has an undeniable right to the fullest possible information on the assets forming his security, a consideration which should weigh heavily against both legal niceties and the familiar (and much over-stressed) argument that such details are of value to competitors.

What of the Future ?

Speculation during a time of emergency on future accounting developments must be largely a matter of conjecture, though certain basic factors can be foreseen with some certainty. An awakened social conscience will tend to regard accounts as a test of efficient management rather than as evidence of profit-earning capacity or financial stability, and will demand this information in a readily ascertainable form. Managements will have to assume a far greater degree of responsibility towards their shareholders, their employees, and society in general, and will frame their accounts in a manner calculated to yield the maximum possible information to the layman unversed in financial and accounting technicalities. The well-designed accounts of to-day, with their refinements mentioned in this article, will become the commonplace of to-morrow, and a great advance may be expected in the presentation of accounting facts in graphic or diagrammatic form. It is likely, too, that periodical statements issued at regular and frequent intervals and available to shareholders and employees alike will supplement the annual accounts, and will give detailed and up-to-date information on the company's progress.

In all of these developments the accountancy profession will be called upon to play a leading part, a part which may call for the abandonment of many well-rooted ideas and the cultivation of a wide and flexible outlook. It will be a call which will create both a great opportunity and a great responsibility, and how it will be met only the future can show.

The American Accountant and the S.E.C.—II

By MARY E. MURPHY, Ph.D., C.P.A.

(In the first article which appeared under this heading in our last issue, Miss Murphy dealt with the legislation administered by the Securities and Exchange Commission and the requirements under the statutes in relation to accounts.)

Auditors and Accounting Principles

Under the two Securities Acts the accountant's relationship to investors has been emphasised because, under them, recovery is permitted relative to data which he has placed in the registration statement of his client. But, in the main, the Commission administering these Acts has not incorporated in its accounting instructions definite and invariable rules; instead, it has required companies "to state the basis for determining the amount" and to specify the method followed for depreciation and for consolidations. It has stated that:

> In certifying the financial statements accountants may give due weight to an internal system of audit regularly maintained by means of auditors employed on the registrant's own staff. In such cases the independent accountants shall review the accounting procedure followed by the registrant and its subsidiaries and by appropriate measures shall satisfy themselves that such accounting procedures are in fact being followed. Nothing in these instructions shall be construed to imply authority for the omission of any procedure which independent public accountants would ordinarily employ in the course of a regular annual audit.

The Commission is empowered to define accounting principles and to make any regulations as to accounting procedures which it deems necessary. It has depended largely upon the integrity and ability of auditors and has not laid down hard and fast rules either regarding types of audits and methods of pursuing them, or as to uniform forms of financial statements, although it has stated the minimum requirements to be met by such audits and statements. It permits registrants to submit statements and schedules "in such form, order and using such generally accepted terminology as will best indicate their significance and character in the light of the instructions." It has placed the responsibility for good accounting and statement practice upon the shoulders of those accountants who certify the statement and reports filed with it.

The passage of the Securities Acts has stimulated the programme of research of the American Institute of Accountants. It became necessary for the Institute to secure a statement of accounting principles, rules, or procedures for the Commission to utilise, and to develop a body of thought within the profession itself, particularly regarding matters of a controversial nature. The Commission has stated its belief that there are many situations and transactions concerning which there are no differences of opinion among accountants and that these should be included in a definite set of rules. About other transactions, however, there may be an honest difference of opinion voiced by leading accounting authorities. It would like to bring about as much clarification of accounting thought as possible by discussion of these debatable issues.

The Auditor's Certificate

The Commission, however, has not attempted to prescribe the scope of the auditor's examination. Standards of procedure announced by the accounting profession, and general sanctions contained in the Acts and in the common law, have been relied upon instead. The Chief Accountant of the S.E.C. has stated that, in his belief, there are several positive implications which the investor is entitled to draw from the certificate of the accountant as follows: that the work has been done by independent experts; that an audit of the business has been made; that the examination and its results are such as to enable the auditor to express an informed opinion and that his opinion is stated as clearly and fairly as possible. The auditor must examine the system of internal check and control to justify his reliance by ascertaining whether in principle it should produce reliable results; whether it is operating as it was set up to operate; and whether it is producing accurate and reliable results. The last objective is secured through tests of records against themselves, against documents, and against physical facts and independent sources. Only in this way can the auditor rely on a sampling process as the basis for his opinion.

The legal requirements of the Securities Acts as to the auditor's certificate are that:—

> The certificate of the accountant or accountants shall be dated, shall be reasonably comprehensive as to the scope of the audit made, and shall state clearly the opinion of the accountant or accountants in respect of the financial statements of, and the accounting principles and procedures followed by, the person or persons whose statements are furnished.

A form of certificate acceptable to the Commission reads:—

> We have examined the balance-sheet of the X Y Z Company as of February 28, 1942, and the statements of income and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.
>
> In our opinion, the accompanying balance-sheet and related statements of income and surplus present fairly the position of the X Y Z Company at February 28, 1942, and the results of its operations for the fiscal year, in conformity with generally accepted accounting

principles applied on a basis consistent with that of the preceding year.

Much of the groundwork laid by the American Institute of Accountants in its relations with the Stock Exchanges facilitated the drafting of the two Acts, particularly in regard to accounting provisions for listed companies. Through intelligent discussion of the issues involved, especially through a special Committee, maintained by the Institute to co-operate with the S.E.C., corporate accounting morals have been improved.

Liability of the Accountant

Under Section 18 (*a*) of the Securities Act, 1934, provision is made as follows :—

> Any person who shall make or cause to be made any statement in any application, report, or document filed pursuant to this title or any rule or regulation thereunder . . . which statement was at the time and in the light of circumstances under which it was made false or misleading with respect to any material fact, shall be liable to any person (not knowing that such statement was false or misleading) who, in reliance upon such statement, shall have purchased or sold a security at a price which was affected by such statement, for damages caused by such reliance, unless the person sued shall prove that he acted in good faith and had no knowledge that such statement was false or misleading. A person seeking to enforce such liability may sue at law or in equity in any court of competent jurisdiction. In any such suit the court may, in its discretion, require an undertaking for the payment of the costs of such suit, and assess reasonable costs, including reasonable attorneys' fees, against either party litigant.

The Response of the Accountancy Profession

In supplying statements and reports to support registration with the S.E.C. public accountants have entered a new field of activity and one that has demanded of them flexibility of mind and accuracy of facts. That they have met this challenge is apparent from the fact that there has been increasingly close co-operation between the American Institute of Accountants and the Commission. Through their joint efforts a new body of accounting principles and procedures is appearing.

The nature and extent of the influence of the S.E.C. upon the profession is only dimly seen at the present time, but widespread recognition will come with the lapse of time. In the Commission's gradual process of accumulation of research and releases pertaining to public accountancy it is apparent that financial statements have become more authoritative, that questionable practices have been eliminated from corporate accounts, that accountants' reports no longer are couched in qualifications and exceptions to the degree formerly followed. It is recognised, too, that the American profession of accountancy is aware of its added responsibilities and its enlarging techniques. It is aware at all times that although the Commission has hastened accounting evolution it must rely upon public accountants to carry its rules and procedures into effect.

(*Concluded.*)

Parliament and Retail Trade

The President of the Board of Trade, Mr. Hugh Dalton, opened a debate in the House of Commons on July 23 on the recent Report of the Committee on the Retail Trade in goods other than food. The report is the subject of our editorial this month.

In the course of his speech, Mr. Dalton outlined the present position of retail trade and said that the number of bankruptcies in the section had fallen from 1,280 in 1938 to 161 in 1941, partly, no doubt, because when a trader closed down he had no difficulty in disposing of his stocks and paying at all events a large part of his debts. The total value of retail sales, excluding purchase tax, had declined by 12 per cent., and that meant a considerable decline in volume. But there were wide differences between different classes of retailer and between different areas of the country. Scotland and the North of England had fared relatively far better than the South and South-east. Small shops had lost ground very heavily as compared with medium and large shops. There was a considerable fall in the total numbers of shops and of workers employed. The Government wished to secure a fair and equitable balance between the various trading interests concerned, both small and large.

He had had a number of consultations with interested parties on the recent Report of the Retail Trade Committee. The Committee's scheme was to establish an insurance fund to assist voluntary withdrawal from retail trade during the period of emergency. A prior right of re-entry was to be given to withdrawing traders, including those who have already ceased to trade. The prevailing opinion revealed was definitely hostile to the Committee's proposals. The Government would give most careful consideration to the report, and to these expressions of opinion. They had not yet taken a decision on policy. He thought there would be no difficulty about treating the proposed contribution to the fund by retailers continuing in business as an expense for taxation purposes, but to do so for purposes of price-fixing was more difficult. The proposal to extend the machinery of the Liabilities (War-Time Adjustment) Act to enable fixed charges to be alleviated without insolvency should certainly be considered.

Suggestions were constantly made that small traders were not getting their fair share of available supplies. There was enough evidence to show that the question must be looked into. Small shops were important as the only retail outlets in rural areas, and also because the mobile labour still available for transfer was mainly in the large shops.

It was desirable to take action soon, but not to try to force down the throats of retailers a scheme to which there was considerable opposition.

In the debate which followed, many Members of Parliament criticised the report on the ground that the proposed scheme would accelerate the closing of small shops, with no certainty that the small trader would be able to re-open when the war was over. Mrs. Tate, a member of the Retail Trade Committee, pointed out that the report did not contemplate compulsory closing of any shop. She did not see how the balance between large and small shops could be preserved unless some of the large shops were to be closed compulsorily, and this would go much further than anything the Committee would have suggested.

TAXATION

Tax-Free Annuities

Much ink has been used on the effect of the Finance Act, 1941, on annuities payable "free of tax" under a will, and it is not without trepidation that we enter the lists. It will be remembered that, by the decision in *Re Pettitt; Le Fevre* v. *Pettitt* ((1922) 2 Ch. 765), any repayment of tax which the annuitant receives on the annuity must be handed over to the trustees under the will, the Court having taken the view that the deceased intended the annuitant to have the clear annuity, neither more nor less, and if he were allowed to retain the tax recovered, he would have more.

At first sight, the calculation of the refund appears simple, and the temptation would be to find the gross equivalent of the annuity at the standard rate, calculating the repayment accordingly. The Revenue, however, will not agree to this method. They interpret the rule as meaning that, since the annuity is to be relieved of tax, only the effective rate of the annuitant can be taken into account, and, as we understand it, they work the repayment as shown in the following illustration (which has been taken for a year before the 1941 amendment).

Widow entitled to annuity free of tax of £156; other income for 1939-40—dividends £80, War Loan interest £14. Age 66. Under the Revenue formula, the computation proceeds:—

(1) Net annuity £156
Other income 94
250
Age allowance ... £50
Personal ... 100
150
£100 at 2s. 4d. = £11 13 4

Effective rate ... ... £11 13 4 / 250 = 11·2d.

(2) Amended gross $156 \times \frac{20}{19/0{\cdot}8} = £164$
Other income 94
258
Age allowance ... £52
Personal 100
152
£106
at 2s. 4d. = £12 7 4
Appropriate to annuity:—
$\frac{164}{258} \times £12\ 7\ 4 = £7\ 17\ 2$

(3) Final gross... ... £156 + £7 17 2 = £163 17 2
Other income ... 94 0 0
£257 17 2

Tax on allowances £152 at 7s. = £53 4 0
£105 17 2 at 4s. 8d. = 24 14 0
£77 18 0

Appropriate to annuity:—
$\frac{£163\ 17\ 2}{£257\ 17\ 2} \times £77\ 18\ 0 = £49\ 9\ 7$

The annuitant will recover £77 18s. 0d., less tax on War Loan interest £14 at 7s. = £4 18s. 0d., or £73 0s. 0d., and hand over £49 9s. 7d. to the trustees. She will thus bear tax deducted from dividends £80 at 7s. = £28, less the tax retained from repayment, £23 10s. 5d., or £4 9s. 7d. (This differs by a few pence from the amount left in (2) above owing to (3) being more exact.)

In practice, the repayment is commonly not handed over, but deducted from the next annuity, which is then regarded as a net sum equal to the amount paid to the annuitant. It will be found to simplify calculating if the repayment is actually made to the annuitant.

For 1941-42 onwards the effect of Section 25 of the Finance Act, 1941, is to reduce any such annuity paid under a will having effect before September 3, 1939, to 20/29ths of itself, and the repayment to the trustees to 20/29ths of the amount that would have been repayable at 1938-39 rates and allowances. The Revenue formula now appears to work as follows:—

(*a*) Annuity (sole income)—£52.
Annuitant will receive $\frac{20}{29} \times £52 = £35$ 17s. 3d., and will reclaim tax on £52 at 10s. = £26. She will account to the trustees for $\frac{9}{29} \times £52$ at 5s. 6d. = £9 17s. 3d., thus retaining £16 2s. 9d., which, with the net sum received from the trustees, leaves her with the clear annuity of £52.

(*b*) Applying the formula to facts as in our previous illustration:—
1938-39 rates
(1) Net annuity £156
Other income 94
250
Age allowance £50
Personal 100
150
£100
£100 at 1s. 8d. = £8 6 8
Appropriate to annuity:—
$\frac{156}{250} \times £8\ 6\ 8 = £5\ 4\ 0$

(The difference would be so small that it is not worth while to go through motion (2) as in the previous illustration.)

(2) Gross annuity, £156 + £5 4 0 ... £161 4 0
Other income 94 0 0
£255 4 0

Tax on allowances:—
Age £51
Personal ... 100
£151 at 5s. 6d. = 41 10 6
£104 4 0 at 3s. 10d. = 19 19 5
£61 9 11

Refundable to trustees :—

$\frac{20}{29} \times £61\ 9\ 11 = £42\ 6\ 2$

(3) Net annuity 1941-42 :—

$\frac{29}{29} \times £156 = £107\ 11\ 9$

Income tax on allowances :—

Age allowance	£25	10	0				
Personal	80	0	0				
	105	10	0	at 10s.	=	£52	15	0
	149	14	0	at 3s. 6d.	=	26	4	0
						78	19	0
Refundable to trustees						42	6	2
						36	12	10
Less tax on War Loan interest ...						7	0	0
Retained by annuitant						£29	12	10

According to Section 25 (4) (*b*), the repayment is made on the gross sum which would have applied at 1938-39 rates and allowances, *i.e.*, £255 4s. 0d.

As we indicated at the beginning, we put forward the above illustrations with some hesitation, as, unfortunately, cases are not frequent enough to enable a broad practice to be reviewed. If readers have had other experiences, these will be welcome.

We are on surer ground when we state that it is the duty of the trustee to see that the annuitant makes his or her claim and to collect the proportion appropriate to the annuity (In *Re Kingcombe, Hickley* v. *Kingcombe* (1936) Ch. 566). In *Re Maclennan, Few* v. *Byrne* (1939), 3 A.E.R. 81, it was held that the *Pettitt* rule applies where the annuity is such annual sum as will, "after deduction of income tax, but not surtax, leave in her hands the sum of £x clear of all deductions for income tax but not surtax." This means £x clear of income tax calculated in relation to the annuitant's reliefs and allowances. (It will be noted that the term was not "income tax at the standard rate.")

Taxation Notes

Finance Act, 1942, Section 34

The provisions as to evidence in cases of fraud or wilful default are the subject of much controversy. The lawyers, steeped in precedent, are up in arms against the violation of a fundamental principle of English law that any evidence obtained from the accused under an inducement or threat cannot be used against him in the Courts. Many accountants are on the same side. Others, including the writer, regard the provision as an inevitable and necessary development. It only applies where there is an allegation of fraud or wilful default, and the accused can refuse to provide the Revenue with information. If he does provide the evidence, the writer cannot see why he should then escape the consequences, bearing in mind that prosecution ensues only where full disclosure and restitution is not made. All will agree that legal avoidance of the consequences of illegal evasion should not be possible and it is difficult to see any alternative way of doing this. It is not suggested that the same rules should apply in cases of capital crimes.

The Biter Bit

Legal avoidance of taxation resulted in the formation of many companies which would never otherwise have been considered. Many of them are now causing their "owners" to pay taxation which would not otherwise be payable, owing to the rules of E.P.T. It will be interesting to see whether the Revenue insist on the strict application of Section 35 in cases where such companies are now wound up.

One particularly hard case arises where a trading company's shares have been held by an investment company which was nothing more than a cloak for the individuals who formed it, and that investment company has been wound up since March 31, 1939, but before E.P.T. was proposed. The official view seems to be that the investment company having been the principal company, any deficiency arising whilst it held the shares of the trading company is no longer available to the latter. The result is that excess profits are taxable where none have in fact arisen. Some antagonists to legal avoidance might regard this as just retribution, but reflection will show that there are two different things involved. The investment company was wound up to get rid of an excrescence; had it been continued no E.P.T. would have been payable. Perhaps the situation is Gilbertian, but the victims do not appreciate the humour.

E.P.T.—Losses Concession

In cases to which Section 30 (2), Finance Act, 1941, applies, losses incurred prior to and during the standard period are taken into account in computing the substituted standard, but as against this addition, there may be an actual reduction of capital as between the standard and chargeable accounting periods as a consequence of losses.

In the case of businesses commenced within the year or two prior to July 1, 1936, the Inland Revenue are now, as a concession, not deducting the amount of any net loss incurred within the first thirty-three months of the business in computing the capital either of the standard *or chargeable accounting periods*. Thus the computation of the capital during the standard period follows on the lines provided in Section 30 (2), whilst the whole amount of the net loss for the said thirty-three months will be added to the average capital in the chargeable accounting period.

The period of thirty-three months is probably taken by reference to Section 30 (1), Finance Act, 1941, which authorises the addition to the capital of the chargeable accounting period of the amount of any net loss sustained down to March 31, 1939, in the case of a business commenced after July 1, 1936, i.e., during the thirty-three months prior to the commencement of E.P.T., in which case the percentage standard applies.

The concession obviously applies only in respect of periods or part periods falling after March 31, 1940.

War Damage Contribution

Further to the note in our July issue, we have now received further details of the information obtained by the Law Society. Late appeals against Schedule A assessments for 1939-40 will be admitted where, because the owner of the property was not liable to tax, he had no interest in applying for a reduction in the assessment at the proper time. There remains the question whether the concession will be extended to cases where, though the owner was liable to tax, he did not realise the position under Schedule A owing to the assessment being discharged by building society interest or for other reasons.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Schedule D—Purchase of business from receiver—Sale by purchaser to new company for cash and shares—Valuation of stock taken over from receiver and transferred to new company.

Osborne v. *Steel Barrel Co., Ltd.* (C.A., April 27, 1942, T.R. 59), was dealt with at some length in our issue of December, 1941; and there the writer described the case as a bold attempt by one legal person to make a large capital profit out of himself as another legal person. In K.B.D. the attempt failed; but the opinion was expressed that the judicial reasoning of Macnaghten, J., was open to question. In the Court of Appeal, his judgment was unanimously reversed, and the decision of the Special Commissioners restored. Leave to appeal further was refused, but the Crown indicated that it might apply for leave elsewhere.

The bare facts are that a Mr. Hood-Barrs bought assets of a moribund company for £10,500 and sold the same assets to himself in the guise of a "one man" company for £40,497 in cash and shares. For stamp duties, the proportion of the £10,500 relating to the stock was £2,493; but it was claimed that the opening entries in the books of the company, viz., £2,493 plus £19,375 19s. 8d., described as the difference between cost and market value, in all £21,868 19s. 8d., was the correct figure. The Special Commissioners had rejected this contention, but had fixed the value at £10,000. Macnaghten, J., had held that the cost could not be regarded as exceeding £2,493, or whatever the Special Commissioners should consider to be the correct proportion of the £10,500.

In the Court of Appeal there were two main issues. The first one was whether the agreement whereby the assets were acquired by Mr. Hood-Barrs from the receiver had placed him in the position of a trustee for the new company—in which case he could derive no benefit. After an exhaustive examination of the legal position it was held that the Special Commissioners' conclusion to the contrary was one of fact.

Upon the subject of the valuation of the stock, the Court took the shares issued to Mr. Hood-Barrs as part of the consideration for his bargain as "a sum of cash equal to the par value of the shares. It would have been illegal for the appellant company to issue the shares at a discount, and there is no ground for suggesting this was done." It was, therefore, held to be necessary to proceed upon the basis that the benefits to the company from the agreement were together of a value "at least equal to the nominal amount of the shares which it issued to Mr. Hood-Barrs." The company, therefore, paid £29,997 for the bargain plus £10,500 paid to the receiver, in all £40,497, and had paid full value for each item. As to the Crown's argument that the proper course would have been to value each of the considerations separately and then to apportion the £40,497 the Court was "not concerned to dispute the view that this method would have been a proper one if the Special Commissioners had the necessary materials." They had not; and their £10,000 for the stock was a finding of fact.

The present writer finds it difficult to see how the illegality of issuing shares at a discount has any relevance to a case, where a man, in a corporate guise, was making a deal with himself in his individual capacity and, as usual, faring badly; so much so, in fact, that the former was paying £21,868 19s. 8d. for stock which the Special Commissioners said was only worth £10,000. But if the Special Commissioners had had "the necessary materials," *and were bound by the* £40,497, it is only necessary to look at the apportionments of that sum made by the company to realise that it might have got even more than it had claimed. But in the artificiality of the circumstances they obviously did not regard themselves as so bound.

The case must, therefore, be considered to be an important but unsatisfactory contribution to a difficult subject.

Schedule E—Director of United Kingdom company—Director ordinarily resident abroad—No duties performed in the United Kingdom—Whether fees assessable—Schedule E, Rules 1, 6, 18 (2); *Companies Act*, 1929, *Sections* 27 (2), 37, 112, 122, 217.

McMillan v. *Guest* (House of Lords, April 27, 1942, T.R. 79) was noted in our issues of December, 1940, and April, 1941. In the K.B.D. Lawrence, J., had found that McMillan was not liable, but his decision was unanimously reversed in the Court of Appeal, and in the House of Lords their decision has been unanimously affirmed.

Lord Atkin held that it was impossible to give effect to the words of Rule 6 (*h*) of Schedule E which apply to "any company" so as to distinguish between private and public companies and as by the Companies Act, 1929, duties were imposed upon their officers which were not imposed upon private partnerships the office of director of a private company was a "public office." As to whether the office of the appellant was "within the United Kingdom" he was completely satisfied with the judgment of the Master of the Rolls. The office of director of an English company, the head seat and directing power of which is admitted to be in the United Kingdom, was of necessity located "where the company is." It was part of the organic structure of the corporation. It was not true, as suggested by Rowlatt, J., in *Proctor* v. *Ryall* (1928, 14 T.C. 204) that the place of exercise governed the matter. He ended his judgment as follows:—

"I consider it to be clear that the director of an English company, *which is resident in the United Kingdom*, wherever he resides and whether or not he takes any part in directing the affairs of the company, holds an office in the United Kingdom."

Lords Wright and Porter in their own valuable analyses pointed out that the charge under Rule 1 of Schedule E was upon every person "*having* or exercising" and not simply "exercising." Both disagreed with the dictum of Rowlatt, J., above mentioned; but Lord Wright made the reservation implicit in Lord Atkin's judgment an express one, by saying, "I limit my observations to such a company, without considering what is the position of a company registered in the United Kingdom but controlled and managed abroad."

PURCHASE TAX A PREFERENTIAL DEBT

Under Section 20 of the Finance Act, 1942, which came into force on June 24, if a person is made bankrupt, any unpaid purchase tax which became due from him to the Crown in the twelve months preceding the date of the receiving order is a preferential debt and must, together with other preferential debts, be paid in priority to all other debts in the distribution of the bankrupt's property. This preference also extends to cases dealt with under the Liabilities (Wartime Adjustment) Act, 1941. Section 20 contains similar provisions applicable to cases involving the winding-up of companies, the appointment of receivers and the death of insolvent persons.

FINANCE Points from Published Accounts

Beyer, Peacock & Co.

We are indebted to the managing director of the company for a letter replying to last month's paragraph on the Beyer, Peacock accounts, and drawing attention to a relevant passage in the annual statement of the chairman, Captain Hugh Vivian. This made it clear that, pending an agreement with the authorities on the question of a substituted profit standard, it had only been possible to make a rough estimate of what the ultimate E.P.T. liability was likely to be. Although this statement was circulated to shareholders with the report it did not reach our desk with the press copy of the accounts upon which we were relying. And neither the description of the item in the profit and loss account—" Provision for Excess Profits Tax from April 1, 1939, to December 31, 1941 "—nor the directors' note that " the reserve provided on account of the company's liability for Excess Profits Tax for the years 1939, 1940 and 1941 is of such a nature as to reduce the carry forward on profit and loss account by a substantial amount " suggested the view that this was a tentative provision. Our criticism that the global provision was not apportioned as between 1941 and the two earlier years—with the result that current net earning capacity was left in doubt—failed, therefore, to take account of the fact that the reserve established was not a precise measure of the E.P.T. liability. Whether in such circumstances it is possible to give a helpful indication of current net profits must, of course, depend upon the likely margin of error in the " rough estimate " of tax demands. But the incident suggests the disadvantage of leaving a key item in the accounts to be elucidated by an extraneous document which may become separated at one of many points.

British Match Corporation

In many instances failure to present a consolidated balance-sheet can be read as a sign of weakness in the assets position. But there are very many cases in which, to judge from external evidence, a composite statement would reveal a very strong situation. This external evidence is particularly convincing with the British Match Corporation, whose shareholdings in subsidiary companies account for £6,262,803 of an assets total of £7,924,505. The corporation's own balance-sheet includes " goodwill, rights, etc.," among the assets only to show that they have been entirely written off. When the corporation was formed in 1927 these items had a book value of £800,000 ; now they have been eliminated altogether and in addition reserves of over £1,000,000 have been accumulated. In goodly measure this strengthening of the balance-sheet position has been made possible through the distribution of bonus dividends by the Bryant & May subsidiary, the practice being to build up the reserves of that company from revenue and at intervals to transfer part of such reserves direct to the reserves of the corporation itself. Bryant and May itself carries goodwill, patents and trade marks at the nominal value of £1—though these items appeared in the 1914 accounts at £1,450,000. At March 31 last this company had £1,737,838 in cash and Government securities, while at April 30 the corporation possessed similar holdings of £1,589,624. On this showing a group statement would seem to have little disadvantage for the corporation ; and it is difficult to see why shareholders, in their attempt to assess the value of their shares, should be left to relate the accounts of the main subsidiary with those of the parent concern and to delve into the past history of both companies.

Siemens Brothers & Co.

In many respects the accounts of Siemens Brothers and Co. are an improvement upon their predecessors. Previously it had been the practice to show the " trading profit " after deducting expenses of every kind, the amount paid to directors by the company and its subsidiaries as remuneration being stated in parentheses. Now, however, the profit is stated subject to directors' fees, depreciation, and what are described as " special wartime expenses," these items being shown separately with the provision for depreciation divided as between freeholds and leaseholds on the one hand, and plant, machinery, furniture and fixtures on the other. The chairman's statement explains that the item of special wartime expenses includes expenditure in connection with A.R.P., war risks insurance, and premiums under the War Damage Act. At £142,850 it bears a formidable ratio to the final net profit of £241,019 ; but it may be questioned whether it ought to be inflated by the inclusion of war risks insurance payments, which, in contrast with war damage contributions, can be treated as a trading expense. The balance-sheet has been improved by a more logical arrangement of the assets and liabilities ; in particular, the investments in subsidiaries are brought immediately next to the fixed assets under the company's direct control, while current liabilities (from which amounts due to subsidiaries are excluded) are grouped together, the components of this item being stated separately, and then totalled.

Marconi International Marine

How helpful a consolidated balance sheet can be is illustrated by the accounts of Marconi International Marine Communication Co. A year ago the directors reserved £54,000 of a net profit of £150,525 to meet losses which might have to be faced in respect of shares and debts in enemy countries. And they expressed their satisfaction that any further loss which might ultimately be realised was more than covered by the general reserve. In respect of 1941 another £40,000 is earmarked, from a net profit of £136,406, against assets in enemy countries. The parent company's balance-sheet shows interests in subsidiaries at £275,551 ; and relating the previous reference to the adequacy of the reserve to the £285,000 amount of that fund it might be assumed, on the face of it, that further heavy provisions might be found necessary. The consolidated balance-sheet puts, however, a different aspect on matters. This combines the assets and liabilities of the communication company and its English subsidiaries ; and the interests in foreign subsidiaries are shown in the form of investments—which aggregate only £13,520, against £91,520 two years back. There are also shares of £86,522 in associated companies and the possibility cannot be ignored that these companies may have interests in enemy countries. But it is significant that although the book value of this item was reduced by £17,500 in 1940, no change has been made this time, indicating that it has not been thought necessary to apply any part of the further specific reserve against it. Incidentally the profit and loss account is conservatively drawn up, the " profit for the year " being stated, as for 1940, after deducting the special reserve allocation. On this basis the 7½ per cent. dividend is again provided with but a small margin, whereas if we regard the reserve appropriations as an optional charge provided out of taxed profits that payment has in both years been earned fully twice over.

The Month in the City

The Courtauld Award

When the terms of the Viscose deal were announced, it seemed evident that Courtauld's shareholders would suffer a grave injustice if the sum received from the Treasury were not substantially higher than the sterling equivalent of the dollar proceeds. In a circular to shareholders, Courtauld's directors valued the tangible assets of the American subsidiary at £29,120,000. At the official exchange rate the dollar proceeds of the issue represented no more than £15,460,000 gross or £13,500,000 after payment of expenses. The sum awarded by the arbitrators is rather more than twice the latter figure at £27,125,000, plus interest at 3 per cent. Thus the cost to the Treasury of the dollars derived from the sale is almost exactly $2 to the £. This does not necessarily mean that the transaction was a mistake. Before Lease-Lend, dollars were urgently wanted on almost any terms, while high policy was held to necessitate a " gesture " of our willingness to make financial sacrifices for war. Whether the gesture was too expensive can be only a matter of opinion. Nor does the award necessarily mean that the American interests took advantage of our necessities to drive an unduly hard bargain, for the market price of the American stock stands at only a very moderate premium over the issue price. If the transaction has a moral, it is rather to emphasise the value to this country of the R.F.C. loan and the Lease-Lend arrangements, which have removed the necessity for further sacrificial sales of this nature.

Shareholders' Viewpoint

From the company's point of view, the award is undoubtedly satisfactory, though it falls £2 million below the directors' valuation, without allowance for goodwill. So far as can be judged from the 1940 figures, the effect will be to convert Courtauld's for the moment into an industrial concern allied to a gigantic investment trust, with cash and securities of some £40 million against the ordinary capital of £24 million. Allowing for the preference capital of £8 million, this indicates a break-up value for the equity of 26s. 9d. in liquid assets. Shortly after the award was made known, the shares (which fell below 30s. when the terms of the Viscose deal were announced) were quoted around 38s., which price therefore implies a valuation of 11s. 3d. per share, or £13,500,000, for the industrial equity. Invested at 3 per cent., the £40,000,000 of liquid assets would provide a payment of about 3¾ per cent. on the ordinary capital (after payment of the 5 per cent. preference dividend). To cover the present 7½ per cent. dividend, therefore, the industrial assets would have to provide earnings of rather more than 4 per cent. on the ordinary, equivalent to about 7 per cent. on the capital value placed on these assets by a price for the shares of 38s. This should hardly prove difficult, while the possession of these vast liquid reserves places the company in an admirable position to take advantage of post-war opportunities for expansion.

New Underwriting Technique

The lifting of the ban on conversions has been followed in recent weeks by several such operations on the part of industrial companies, including some leading brewery concerns. An interesting incidental effect of this resumption of industrial new issues has been the development of a new underwriting technique. In normal times, it was sufficient that an underwriter should be able to fulfil his immediate obligation to take up unconverted stock. In the recent issues, however, underwriters have agreed not only to take up stock but to continue to hold it. It is symptomatic of the present restricted outlets for investment that even on this condition underwriters have been eager to earn a commission (usually of about ¾ per cent.) and to acquire stocks offering a somewhat higher yield than Government issues. For the most part, such underwriting has been assigned to insurance companies, who have surely earned a slight concession of this kind by placing the whole of their investible funds since war began in Government loans. From the point of view of the Treasury, it is difficult to see that there is any greater gain from this interference with market practice than from the reluctantly abandoned ban on conversions. If the underwriters were allowed to resell as the absorptive capacity of the market permitted, they would almost certainly reinvest the proceeds in the Government loans. On the other hand, it is by no means certain that the potential purchasers of the industrial stocks will do so.

THE OFFICERS' ASSOCIATION

During the first two years of the present war the Officers' Association experienced a considerable diminution in claims for financial assistance and in the work of the employment bureau, as many ex-officers were called up or obtained work of national importance. But the annual report for 1941 records that officers are now leaving the services in increasing numbers on account of ill-health or for other reasons, and a continued increase is to be expected in the number of applicants for financial assistance, clothing, employment, and advice of every kind. Former commissioned officers of the A.T.S. and the W.A.A.F., ex-nurses of officer status, and ex-officers of the Home Guard, are eligible for assistance under the terms of the Association's charter. It is clear that to meet these additional and increased commitments there must be a substantial increase in the Association's resources.

SCOTTISH NOTES

Revenue Case—Home Guard

An important case, of which more will certainly be heard, was decided by Lord Keith in the Court of Session on July 17. The question arose in an action by the Lord Advocate, on behalf of the Inland Revenue, against the trustees acting under the will of the late Major Frederick Donald Mirrielees, of Garth, Aberfeldy, for £64,000, or whatever sum might be found due as estate duty. Major Mirrielees was killed on August 17, 1940, by the explosion of a hand grenade while on duty as a company commander of the Home Guard.

The main question raised was whether he died in the service of His Majesty as a common soldier within the meaning of the Finance Act, 1894. If so, his estate was entitled to complete exemption from estate duty. At the time of the decision the estate had already been conceded relief, amounting to £42,000, under the Finance Act of 1924.

The trustees claimed exemption from the ordinary incidence of estate duty, basing their claim on various Statutory Rules and Orders and Army Council Warrants—all relating to the Local Defence Volunteers or the Home Guard. The defenders urged that the effect of all these orders and instructions was to bring all the members into the category of common soldiers.

Lord Keith decided in favour of the Revenue, holding that the term " common soldier " did not refer to members of the Home Guard, and that, while for certain purposes a member of the Home Guard fell to be treated as if he were a private soldier, it was nowhere prescribed that he should be treated as a private soldier for all purposes.

LAW

Legal Notes

EXECUTORSHIP LAW AND TRUSTS

Will—Gift of " all my moneys "—Rule of Law Not Suited to Modern Requirements.

It is unfortunate that when a testator uses the word " money " in his will the Courts are bound by an old rule of law whereby the word must be construed in its strict sense, unless there is something in the context which clearly points to a wider meaning. In the recent case of *In re Morgan* (1942, W.N. 126), Lord Greene, M.R., pointed out that the rule has existed since 1725, when the investing class was very small. But now millions of small investors have their money in War Savings Certificates or Defence Bonds. As Greene, M.R., pointed out, a large proportion of those small investors would, in making their wills, probably refer to such savings as " my money " or " my moneys," and it would be a great misfortune if such people died intestate. In this case the testatrix made her will in 1935, whereby, after making certain specific devises, she directed " that all moneys of which I shall die possessed of shall be shared by my nephews and nieces now living." She died in 1939, leaving a large number of investments, cash in the bank, and other property. The Court of Appeal found itself bound by law to uphold the decision of Farwell, J., and to construe " money " in the strict sense. Therefore, as regards her investments and effects other than " money " (in the strict sense) there was an intestacy. Leave was given to appeal to the House of Lords, and if the case comes before the House, the matter will no doubt be reviewed in all its aspects.

Administration—Statutory Presumption of Survivorship.

The simultaneous deaths of persons in air raids give point to the provision in the Law of Property Act, 1925, whereby, if the circumstances render it uncertain which survived the other or others, for purposes affecting the title to property, the younger shall be deemed to have survived the elder. This presumption can be rebutted, and if satisfied by rebutting evidence the Court can make an order to the contrary. But there is no discretion to displace the presumption merely on the ground that its operation might be unfair. In *Re Lindop* (1942, W.N. 132) the facts were as follows. In 1928, L made a will, bequeathing his residuary estate to his wife, D. In 1931 D by her will gave her estate to her mother, R, and if R predeceased D, to D's named brothers and sisters. There were no children of the marriage ; L was 9 years older than D. In May, 1941, the house in which L and D were living received a direct hit in an air raid. They had been sleeping in the same room on the first floor, and their bodies were found in the wreckage. Evidence of a rescue worker and a doctor who examined the bodies showed that L and D must have been killed instantly and simultaneously by blast. Bennett, J., held that, on the only facts ascertainable, it was uncertain whether L survived D or *vice versa*. Time was infinitely divisible and so it could not be proved that the deaths occurred exactly simultaneously. (If it were possible to prove it, such proof would, of course, displace the statutory presumption of the elder's survivorship.) The evidence here did not displace the presumption, and so, however unfair or unfortunate the effect might be on the devolution of the property of L, D, as the younger, must be presumed to have survived L. Therefore all L's residuary estate passed with the residue of D's estate, under the terms of her will.

Legacy to Executor Conditionally on His Proving the Will and Accepting Trusteeship—Acceptance of Trusteeship.

The recent decision of Bennett, J., in *Re Sharman* (1942, 2 All E.R., 74) is of importance to executors and trustees who are to receive some financial recompense for the time and trouble involved. Whilst no one is bound to accept the office of trustee, both the office and the estate may be disclaimed before acceptance, but not afterwards. It is also established that when the office of executor is clothed with certain trusts, or the executor is nominated the trustee of real estate under a will, he is deemed to have accepted the office of trustee if he takes out probate of the will.

In the case now considered, the testator appointed his brother and his friend X to be executors and trustees of his will, and gave X a legacy of £1,000 if he should prove the will and accept the trusteeship. X proved the will, paid funeral and testamentary expenses, and performed other administrative acts. In 1933 a summons to settle questions of the administration came before the Court and was settled by agreement. Among the terms endorsed on counsel's briefs was one that the executors had stated they did not wish to become or to act as trustees of the will and agreed to disclaim or retire from the trusteeship. In 1939 the Court was asked to approve a second compromise, that some fit and proper persons might be appointed trustees in place of the original trustees, and that the Public Trustee might be appointed judicial trustee of the will. In the order on the second summons it was recited that X by his counsel disclaimed the trusteeship, and by the order the judge appointed the Public Trustee to be the sole trustee of the will in substitution for the original trustees. On the day before the will was proved in 1929, X had paid himself the legacy of £1,000 and it was now contended that he was not entitled to do so, since he had not fulfilled the conditions on which the legacy was given, in that he had not accepted the trusteeship and that all his acts of administration were done by him only in his capacity of executor. It was also argued that he was estopped by the terms endorsed on counsel's briefs in 1933 from asserting that he had accepted the trusteeship. It was held : (1) the endorsement did not arise out of a matter then before the Court for decision, and therefore did not operate as an estoppel ; (2) regarding all the acts done by X, he had fulfilled the condition on which the legacy was given. Once a trustee has accepted, he ceases to be a trustee only on discharge or on the appointment of a new trustee in his place.

COMPANY LAW

Winding-up—No Power to Reopen List Settled by Liquidator.

In *Re Westways Garage, Limited* (58 T.L.R., 292) Bennett, J., held that when a liquidator, in accordance with the rules, has finally settled the list of contributories with the number of shares for which they are liable, and the amounts paid up and called up in respect of such shares, and there has been no appeal from his decision as a judicial officer of the Court, the matter is *res judicata* and cannot be reopened by him or any subsequent liquidator who may succeed him, under rule 83 or otherwise, even though, in the opinion of the subsequent liquidator, the original decision was wrong.

The company was incorporated in August, 1938, with a nominal capital of £10,000 divided into 10,000 shares of £1 each. In November, 1938, at a directors' meeting

it was resolved that 2,000 £1 shares should be allotted as fully paid to X in consideration of his subscribing for 4,000 fully paid shares in the company and for services rendered. At a directors' meeting in December, 1939, X said he could not take up the 2,000 free shares and he returned them for cancellation. In June, 1940, the company was wound up by order of the Court. Y, a Chartered Accountant, was appointed liquidator. He decided that X should not be put on the list of contributories in respect of the 2,000 shares. In October, 1940, Y finally settled the list, in which X's name appeared in respect of 4,000 shares, on which £1,000 had been paid at the beginning of the winding-up. X disputed this decision, claiming a set-off. In March, 1941, a consent order was made; the liquidator's certificate was varied by increasing the amount stated to be paid up on the 4,000 shares from £1,000 to £1,275. In April, 1941, Y died and his partner Z was appointed liquidator in his place. He obtained judgment against X for the amount due on the 4,000 shares, namely, £2,808. X obtained a protection order under the Liabilities (War-time Adjustment) Act, 1941. Z decided Y ought to have included X in the list in respect of the 2,000 shares, and gave notice to X to settle a supplemental list of contributories and to include X. Bennett, J., agreed that Y was clearly wrong. None the less, having regard to the Companies Winding-up Rules, the matter was *res judicata* and could not be reopened.

The Emergency Acts and Orders

In our November, 1939, issue we published the first instalment of a comprehensive guide to the wartime enactments and Orders which most concern the accountant. The thirty-second instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.

ORDERS

COMPANIES

No. 1018. *Burma Companies (Registration) Rules*, 1942.

Procedure is laid down for registration in England or Scotland, under the Companies (Defence) Regulations, of companies incorporated under the law of Burma.

(See ACCOUNTANCY, May, 1942, page 141.)

INCOME TAX

No. 1111. *Post-War Credit (Income Tax) Regulations*, 1942.

The post-war credit due to an individual under Section 7 of the Finance Act, 1941, is to be ascertained and recorded by the Inspector, who shall issue a certificate of the amount. The individual may appeal within three months if he considers the amount incorrect. The Inspector may determine the appeal by agreement with the appellant; in default of agreement it is to be referred to the Commissioners. The credit may be apportioned between husband and wife if they so desire.

No. 1179. *Relief from Double Income Tax on Agency Profits (New Zealand) Declaration*, 1942.

Relief is given under the terms of a reciprocal agreement in respect of agency profits which would otherwise be liable to income tax both in the United Kingdom and in New Zealand.

(See ACCOUNTANCY, December, 1941, page 53.)

LIMITATION OF SUPPLIES

Nos. 1151. *Miscellaneous Textiles (Manufacture and Supply) Directions*, 1942.

The manufacture of certain furnishing fabrics is prohibited, except for Government Departments, and their supply is restricted. Bedspreads, table cloths, and other "non-essential" textile goods may not be manufactured from controlled goods.

(See ACCOUNTANCY, July, 1942, page 179.)

PRICES OF GOODS AND SERVICES

No. 958. *Price-controlled Goods (Restriction of Resale) (No.* 2) *Order*, 1942.

The previous Restriction of Resale Order is revoked and superseded. A trader may not resell price-controlled goods otherwise than by retail unless he has imported them or bought them from the manufacturer or importer. An exception is made in the case of a business which has included such transactions since March 3, 1939, if the goods were bought from a person who bought them from the manufacturer or importer. Goods bought by retail in the course of a business may not be resold.

No. 989. *Boot and Shoe Repairs (Maximum Charges) Order*, 1942.

Charges for boot repairing are limited to the current charges or to those ruling in the week commencing August 21, 1939, plus 33⅓ per cent., whichever is the smaller.

(See ACCOUNTANCY, July, 1942, page 179.)

TRADING WITH THE ENEMY

Nos. 1040, 1122. *Trading with the Enemy (Specified Persons) (Amendment) Orders*, 1942, *Nos.* 9 *and* 10.

No. 1040 revokes previous Orders and presents a consolidated list of those with whom dealings are prohibited. The list is amended by No. 1122.

No. 753. *General Licence as to Fees in respect of Patents, Designs, and Trade Marks.*

Renewal fees for a patent, design or trade mark owned by an enemy may be paid by a licensee or part owner who is not an enemy.

(See ACCOUNTANCY, May, 1942, page 141.)

WAR DAMAGE

No. 715. *War Damage (Business Scheme) (No.* 7) *Order*, 1942.

Radio receiving sets and radio gramophones, owned in the course of a business of letting out such goods on hire, need not be insured while in the possession of a hirer.

(See ACCOUNTANCY, May, 1942, page 141.)

WAR RISKS INSURANCE

No. 741. *War Risks (Commodity Insurance) (No.* 2) *Order*, 1942.

Agricultural products need not be insured by a farmer even if not produced by him.

No. 996. *War Risks (Commodity Insurance) (No.* 3) *Order*, 1942.

The commodity insurance premium for the three months commencing June 3, 1942, is ¼ per cent. per month, with a minimum of 5s. for a period not exceeding one month and 15s. for any longer period.

(See ACCOUNTANCY, April, 1942, page 122.)

Society of Incorporated Accountants

COUNCIL MEETING

TUESDAY, JULY 21, 1942

Present: Mr. Richard A. Witty (President) in the chair, supported by Mr. Fred Woolley (Vice-President) and other members of the Council, and Mr. A. A. Garrett (Secretary).

MR. PERCY TOOTHILL, PAST-PRESIDENT.

On behalf of the members of the Society the President presented to Mr. Percy Toothill an inscription of the resolution of thanks accorded to Mr. Toothill at the annual general meeting of the Society held in May, 1942, for his valuable services as President from 1939-1942.

COMMITTEES

A report was received that the following elections of chairmen and vice-chairmen had been made by the respective committees :—

Disciplinary Committee: Mr. Henry Morgan (chairman); Mr. R. Wilson Bartlett (vice-chairman).

Finance and General Purposes Committee: Mr. C. Hewetson Nelson (chairman); Mr. E. Cassleton Elliott (vice-chairman).

Examination and Membership Committee: Mr. Henry Morgan (chairman); Mr. Walter Holman (vice-chairman).

Parliamentary Committee: Sir Thomas Keens (chairman); Mr. F. J. Alban (vice-chairman).

District Societies Committee: Sir Thomas Keens (chairman); Mr. Walter Holman (vice-chairman).

DEFERMENT OF CALLING UP

A report was made to the Council of the present position as regards the calling up of (*a*) men and (*b*) women engaged in the accountancy profession.

WAGE EARNERS' INCOME TAX

Attention was called to an arrangement made in one or two parts of the country where members of the profession had volunteered to give advice on wage earners' income tax at Citizens' Advice Bureaux. This is a useful sphere of service for qualified accountants, but the matter must be left to individual initiative.

RESIGNATIONS

The following resignations were accepted as from the dates indicated :—

December 31, 1941: Allen, Sidney Edward (Associate), Burton-on-Trent; Bull, Edmund (Fellow), Burbage; Tilley, Thomas Paul (Associate), Osterley.

July 15, 1942: Whyte, John Gerard (Associate), Liverpool.

DEATHS

The Secretary reported the death of each of the following members: Bradbrook, Robert Stanley (Associate), London; Douglas, Duncan (Fellow), Leicester; Jeff, George Henry (Associate), Ilford; Plender, Thomas Turner (Fellow), Liverpool; Taggart, Patrick (Fellow), Liverpool; Williams, Arthur Lionel Alfred (Associate), Bath (presumed killed in action).

SOUTH AFRICAN (WESTERN) BRANCH

The sixteenth annual meeting of the South African (Western) Branch of the Society was held at Cape Town on May 7.

The Chairman, Mr. C. D. Gibson, presented his report. This showed a membership of 112. Seventeen members and several articled clerks were known to be on active service. Hearty greetings and best wishes for a safe and speedy return were sent to them. The Branch had made its yearly donation of twenty guineas to the Benevolent Fund.

Mr. Gibson mentioned that the Companies Amendment Act, 1942, had amended the earlier provisions relating to the appointment of auditors of companies. Annual re-nomination was no longer necessary.

Mr. H. J. Notcutt was re-elected auditor. The retiring members of the Committee were declared re-elected, as there were no other nominations. The proceedings closed with a vote of thanks to the Chairman.

PERSONAL NOTES

Mr. Berkeley Hall, Incorporated Accountant, Shepton Mallet, has been appointed a Justice of the Peace for the County of Somerset.

Mr. Horace James, Incorporated Accountant, has been appointed Clerk and Accountant to the Tees Conservancy Commission, Middlesbrough.

REMOVALS

Mr. C. S. Moores, Incorporated Accountant, announces that he is now practising from 23, Southernhay East, Exeter.

Messrs. Edwin V. Nixon & Partners advise that their address is now 108, Queen Street, Melbourne, Australia.

Messrs. P. D. Leake & Co. announce a change of address to 1, Cornhill, London, E.C.

Mr. Percy H. Walker, Incorporated Accountant, intimates that he has resumed practice at 18, Pembroke Terrace, Cardiff.

Messrs. H. Rainsbury & Co., Incorporated Accountants, have removed their offices to 23-26, Broad Street Avenue, Blomfield Street, London, E.C.

Messrs. Middleton, Hawkins & Co., Incorporated Accountants, advise that they have now reoccupied their offices at Abbey House, Victoria Street, Westminster, London, S.W.

Messrs. Hopps & Bankart, 25, Friar Lane, Leicester, announce that owing to ill-health Mr. George Spencer Bankart, A.C.A., has retired from the practice. Mr. John Alfred Hopps, F.C.A., will continue to practise under the same firm name in conjunction with Mr. A. P. Haines, A.S.A.A., Mr. C. E. Fletcher, A.S.A.A., Mr. H. Rivington, A.S.A.A., and Mr. S. R. Herrick, A.C.A., who have been admitted into partnership.

OBITUARY

THOMAS TURNER PLENDER

We regret to record the death on June 22 of Mr. T. T. Plender, A.C.A., F.S.A.A., Principal Accountant from 1921 to 1941 of the Mersey Docks and Harbour Board. Mr. Plender was 65 years of age. He became a member of the Institute of Chartered Accountants in 1903, and of the Society of Incorporated Accountants in 1921. He was President from 1936 to 1938 of the Incorporated Accountants' District Society of Liverpool, in whose affairs he was keenly interested, and was always ready to assist his fellow members. Throughout his service with the Mersey Docks and Harbour Board, Mr. Plender was constantly engaged in difficult negotiations in connection with the many Acts of Parliament affecting the Board's activities. On his retirement in 1941, the Chairman of the Finance Committee expressed particular appreciation of Mr. Plender's clear presentation of financial problems.

The funeral took place at West Kirby Parish Church on June 24, and was attended by Mr. Bertram Nelson, a member of the Council of the Society and Honorary Secretary of the Liverpool District Society.

PATRICK TAGGART

We have learned with deep regret of the sudden death on July 6 of Mr. Patrick Taggart, F.S.A.A., Liverpool. Mr. Taggart was 55 years of age. He became a member of the Society of Incorporated Accountants in 1916, after being awarded the Second Certificate of Merit in the Final Examination, and was advanced to Fellowship in 1922. His articles were served with Mr. Richard Barrow, F.S.A.A., then City Treasurer of Liverpool, but after qualifying he entered public practice, first as a partner in Messrs. F. A. Cawson & Co. and later under the style of P. Taggart & Co. Mr. Taggart was closely identified with the Incorporated Accountants' District Society of Liverpool, and was especially interested in the welfare of students. He was a lecturer in accounting at Liverpool University for twenty-three years, and was also an external examiner in accounting for the Universities of London and Manchester, and in commercial subjects for papers in the Irish language for the National University of Ireland. He was a prominent member of Roman Catholic organisations, being Vice-President of the Liverpool Archdiocesan Board of Catholic Action, a former Grand President of the Catenian Association, and an active supporter of the Sword of the Spirit movement.